

DAR AL ARKAN
REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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February 1,2018

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Dar Al Arkan Real Estate Development Company (A Saudi Joint Stock Company)

Opinion

We have audited the accompanying consolidated statements of **Dar AI Arkan Real Estate Development Company** (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the statement of consolidated financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of a Matter - comparative figures

We would like to draw attention to note 28 to the consolidated financial statements of the Group, which refers to reclassification to comparative figures presented as at and for the year ended 31 December 2016, in accordance with International Financial Reporting Standards endorsed in the Kingdom of Saudi Arabia. The Group is not the first time adopter of IFRS. The Group has been consistently prepared and issued its consolidated financial statements in compliance with International Financial Reporting Standards (IFRS) from the year ended 31 December 2008 and for all periods up to and including the year ended 31 December 2016, for complying with international capital markets covenants and management requirements.

The IFRS reports were issued separately and independently in parallel without affecting its statutory consolidated financial statement prepared and issued in accordance with generally accepted accounting principle in the Kingdom of Saudi Arabia (SOCPA).

As a result, comparative information in the accompanying consolidated financial statements has been reclassified. Our opinion has not been amended accordingly.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Dar Al Arkan Real Estate Development Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out below:

The Key Audit Matters	How the matter was addressed in our audit
<p>Evaluation of development properties</p> <p>The Group maintains development properties consisting primarily of under construction and development projects for the purpose of development and sale in its ordinary course of business. The carrying amount of real estate properties is SAR 14.874 billion (31 December 2016: SR 17.038 billion).</p> <p>All development properties (held for development or sale) are initially recognized at acquisition cost and subsequently re-measured at the lower of cost and net realizable value, whereas their fair value is estimated for the purpose of disclosure only in the notes to the consolidated financial statements.</p> <p>Management has determined the net realizable value of the development properties based on internal valuation, taking into account market data adjusted in comparison to the characteristics of the concerned properties, including the inputs used by the management during its assessment of the expected cash flows and the market current rental value in which both are exposed to the changes in the prevailing market forces and the characteristics of each property in the portfolio.</p> <p>In addition, the Group has used, where necessary, to measure the fair value of development property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification.</p> <p>During the period, the Group's management conducted an internal review and evaluation of the development properties resulting in an increase in the fair value by 35% (31 December 2016: 46%) through the development property portfolio as described in note 6. Management believes that the increase in carrying amount is a conservative indication of the fair value of the Group's development properties.</p> <p>The valuation of the cost of properties and net realizable value is a complex process where the change in the Group's estimate of the selling price and the cost of construction would materially affect the carrying amount of the properties held for development and sale in the Group's consolidated financial statements.</p>	<ul style="list-style-type: none"> • We assessed the appropriateness of evaluation methods and assumptions, critical judgment areas and estimates used by management in the internal evaluation process; • We have engaged in discussions with management and have evaluated the relevant assumptions used, based on market data where possible; • We have tested the appropriateness of the key inputs used in the valuation of properties held for development and sale; • For commercial and residential properties held for sale, we have compared the main assumptions used by management with external data in the area of business and comparable real estate transactions, particularly selling prices; • We have assessed the reason for changes in key inputs, estimates and assumptions for the prior period; • We assessed the effectiveness and efficiency of management staff experience in the evaluation process; • Based on the results of our valuation, we have estimated the adequacy of the disclosures in the Group's consolidated financial statements.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Dar Al Arkan Real Estate Development Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

<p>Evaluation of investment properties</p> <p>Investment properties are stated in the Group's consolidated statement of financial position at cost, while their fair value for the purpose of disclosure is determined only in the notes to the consolidated financial statements.</p> <p>The Group's management performs an internal valuation to determine the fair value of its investment properties.</p> <p>In addition, the Group has used, where necessary, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.</p> <p>The fair value of investment properties has been estimated by the management, in collaboration with a specialized and independent valuation company, using the income capitalization method. Annual cash flows are estimated by extrapolating and reconciling the current rental income based on their optimal occupancy and then capitalizing it at an annual rental rate of 5-7% between the leased residential and commercial properties in order to reach the estimated fair value shown in the note 5.</p> <p>The valuation of investment properties is critical to our audit because of its importance, complexity and significant reliance on a range of assumptions including expected lease values, expected returns, occupancy rate and discount rate.</p>	<ul style="list-style-type: none"> • We have evaluated the significant assumptions used by the management in its assessment that include expected rental values, expected returns, occupancy rate and discount rate. We have supported these assumptions with rental agreements, published indicators and comparative market data available; • We evaluated key inputs and assumptions in the evaluation model and analyzed their sensitivity to key elements; • We also assessed the reason for changes in key inputs, assessments and assumptions for the prior period; • We assessed the effectiveness and efficiency of the experience of management staff in the evaluation process; • For the independent evaluator, we assessed the efficiency, independence and integrity of the external evaluation firm; and • Based on the results of our valuation, we have estimated the adequacy of the disclosures in the Group's consolidated financial statements.
<p>Revenue recognition from sale of properties</p> <p>The Group has early adopted IFRS 15 Revenue from Contracts with customers as the Group believes that this represents a better performance of the Group's real estate activities.</p> <p>Revenue recognition from the sale of properties including residential units, commercial units and parcels of land, includes significant inherent risks as a result of judgments and estimates used. The audit provisions on the percentage of completion of the projects, including the costs incurred to date against the total expected value of the project and the stage of completion of the project in the absence of the sale of all the units under development are all matters that require great attention during the audit, including:</p>	<ul style="list-style-type: none"> • We have audited the contracts for the sale of real estate units including residential units, commercial units and land plots to renew the Group's performance obligations under these contracts and to assess whether these obligations are met over time or at any given time on the basis of the standard established by IFRS 15 . Our focus under these contracts is to determine whether the Group has a binding right in payments for performance performed to date to be satisfied with the revenue earned to date under these contracts;

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Dar Al Arkan Real Estate Development Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

<ul style="list-style-type: none"> - The ability of the Group to make payments on work performed in accordance with the terms of its contracts and therefore meet the requirements of IFRS 15 regarding revenue recognition over time; - Total expected cost of completion of the real estate project covering the unit sold; - Probability of collection of remaining sales; - The value of infrastructure costs to be incurred to complete the project. 	<ul style="list-style-type: none"> • We have examined the internal control procedures on the Group's budget preparation process to determine its accuracy, with particular emphasis on the total projected costs of completion of the real estate projects involving the units sold; • We conducted a detailed tests based on a sample bases to determine whether the costs incurred on the projects were recorded and capitalized. We also assessed the distribution of these costs on the sold and unsold units based on the respective area of the real estate development projects by reviewing the summary of the cost allocation within the project prepared by the management.
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Other Information

Other information consists of other information from the information included in the Company's annual report for the year ended 31 December 2017, other than the consolidated financial statements and the auditors' report thereon. We expect to obtain the Annual Report for the year ended 2017 after the date of this auditor's report. The Group's management is responsible for the other information mentioned in its annual report.

Our opinion on the consolidated financial statements does not cover other information and we do not and will not express any form of assurance conclusion thereon.

In our audit of the consolidated financial statements, it is our responsibility to read the information described above. In doing so, we consider whether the other information is not materially consistent with the consolidated financial statements or knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's By-laws and companies regulation and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's consolidated financial reporting process.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Dar Al Arkan Real Estate Development Company (A Saudi Joint Stock Company) (continued)

Auditors' Responsibilities for the Audit of the Consolidated financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Dar Al Arkan Real Estate Development Company (A Saudi Joint Stock Company) (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements


The accompanying consolidated financial statements of **Dar Al Arkan Real Estate Development Company** (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group"), taken as a whole, comply with the requirements of the Regulations for Companies and Company's By-Laws with respect to the preparation and presentation of consolidated financial statements.

For Al-Kharashi Co.


Suliman Al-Kharashi
Certified Public Accountant
License No. (91)



Mohammed A. Al-Haij


Certified Public Accountant
License No. (119)



**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Notes	2017 SR 000	2016 SR 000
ASSETS			
Non-current assets			
Investment properties, net	5	3,290,010	3,424,778
Long-term development properties	6	14,751,565	16,721,061
Property and equipment, net	7&22a	70,925	66,131
Investments in associates and joint ventures	8	811,189	790,585
Other assets	9	1,950	828
Total non-current assets		18,925,639	21,003,383
Current assets			
Short-term development properties	6	122,675	317,325
Trade receivables and others	10	4,033,325	2,582,978
Cash and cash equivalents	11	3,159,666	582,088
Total current assets		7,315,666	3,482,391
TOTAL ASSETS		26,241,305	24,485,774
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-current liabilities			
Borrowing -long-term maturity portion	12	4,720,334	4,890,375
End of service indemnities	13	21,961	25,682
Total non-current liabilities		4,742,295	4,916,057
Current liabilities			
Borrowings-short-term maturity portion	12	1,678,648	324,995
Trade payables and others	14	537,142	529,721
Zakat provision	15c	549,670	537,494
Total current liabilities		2,765,460	1,392,210
Total liabilities		7,507,755	6,308,267
Shareholders' Equity			
Share capital	16	10,800,000	10,800,000
Statutory reserve		1,058,720	1,003,383
Retained earnings		6,874,830	6,374,124
Total shareholders' equity		18,733,550	18,177,507
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		26,241,305	24,485,774


Managing Director




Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>Notes</u>	<u>2017</u> <u>SR 000</u>	<u>2016</u> <u>SR 000</u>
Revenue	17	4,734,682	1,870,229
Cost of revenue	18	(3,620,672)	(1,078,286)
GROSS PROFIT		1,114,010	791,943
Operating expenses:			
General and administrative expenses	19	(162,002)	(160,028)
OPERATING PROFIT		952,008	631,915
Finance costs	20	(441,523)	(385,984)
Other income, net		36,722	(32)
Share of net profits from associates and joint ventures	8 a	20,604	12,878
PROFIT BEFORE ZAKAT		567,811	258,777
Zakat provisions	15b	(14,443)	(7,943)
NET PROFIT FOR THE YAER		553,368	250,834
Other comprehensive income:			
Re-measurement gain on end of service indemnities		2,675	-
Total comprehensive income for the year		556,043	250,834
Total comprehensive income attributable to:			
Dar Al Arkan shareholders		556,043	250,834
Earnings per share (in Saudi Riyal)			
Basic and diluted	21	0.51	0.23


Managing Director




Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Total equity SR 000
2017				
Balance as at 1 January 2017	10,800,000	1,003,383	6,374,124	18,177,507
Net profit for the year	-	-	553,368	553,368
Other comprehensive income	-	-	2,675	2,675
Total comprehensive income for the year	-	-	556,043	556,043
Transfer to statutory reserve	-	55,337	(55,337)	-
Balance as at 31 December 2017	10,800,000	1,058,720	6,874,830	18,733,550

2016

Balance as at 1 January 2016	10,800,000	978,300	6,148,373	17,926,673
Net profit for the year	-	-	250,834	250,834
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	250,834	250,834
Transfer to statutory reserve	-	25,083	(25,083)	-
Balance as at 31 December 2016	10,800,000	1,003,383	6,374,124	18,177,507


Managing Director




Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 SR 000	2016 SR 000
OPERATING ACTIVITIES		
Profit before Zakat	567,811	258,777
Adjustment for:		
Depreciation	76,775	77,500
End of service indemnities	5,129	6,317
Provision for doubtful debts	-	1,000
Finance costs	441,523	385,984
Share of net profit from associates and joint ventures	(20,604)	(12,878)
Operating cash flows before movements in working capital	1,071,260	716,700
Development properties, net	2,227,035	(3,960)
Trade receivables and others	(1,450,347)	339,518
Other assets	(1,122)	(828)
Trade payables and others	7,421	20,443
Cash from operations	1,853,621	1,071,873
Finance costs paid	(408,673)	(353,536)
Zakat paid	(2,267)	(26,206)
End-of-service indemnities paid	(6,175)	(1,608)
NET CASH FROM OPERATING ACTIVITIES	1,436,506	690,523
INVESTING ACTIVITIES		
Investment properties	-	3,382
Investments in associates	-	(1,500)
Disposal of property and equipment	440	-
Purchase of property and equipment	(10,130)	(1,738)
NET CASH USED IN / FROM INVESTING ACTIVITIES	(9,690)	144
FINANCING ACTIVITIES		
Long term borrowings	1,150,762	(1,109,640)
NET CASH FROM / USED IN FINANCING ACTIVITIES	1,150,762	(1,109,640)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,577,578	(418,973)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	582,088	1,001,061
CASH AND CASH EQUIVALENTS, END OF THE YEAR	3,159,666	582,088
Non-cash transaction related to transfer of investment property (Note 5)		
Transfer of investment properties to development properties	62,889	-


Managing Director




Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY (the "Company"), is a Saudi Joint Stock Company established under the Company Laws & Regulations of The Kingdom of Saudi Arabia. The Company is registered in Riyadh under Commercial Registration No. 1010160195 dated 16/04/1421H, corresponding to 18/07/2000 G. The Company is domiciled in The Kingdom of Saudi Arabia (K.S.A.) and its registered office address is P.O. Box No: 105633, Riyadh-11656, K.S.A.

The equity shares of the Company are listed with the security market of The Kingdom of Saudi Arabia.

The Company and its Subsidiaries are collectively called "the Group" and is predominantly engaged in the business of development, sale and leasing of real estate projects and associated activities. The Company manages its activities through subsidiaries established for each line of business. These Subsidiaries operate under their own commercial registration and are summarised below:

DAR AL-ARKAN PROPERTIES (REAL ESTATE) COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010254063, dated 25/7/1429 H (corresponding to 28/7/2008 G). It operates in development and acquisition of commercial and residential real estate. It provides management, operation and maintenance of residential and commercial buildings and public facilities.

DAR AL-ARKAN PROJECTS COMPANY – is a limited liability company, a wholly owned subsidiary, company registered in Riyadh under the Commercial Registration No. 1010247583, dated 28/3/1429 H (corresponding to 5/4/2008 G). It operates in general construction of residential and commercial buildings (construction, maintenance, demolition and restructuring).

DAR AL-ARKAN COMMERCIAL INVESTMENT COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010247585, dated 28/3/1429 H (corresponding to 5/4/2008 G). It operates in purchase and acquisition, lease of real estate investments.

DAR AL-ARKAN SUKUK COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010256421, dated 16/9/1429 H (corresponding to 16/9/2008 G). It operates in Real Estate investments and development.

SUKUK AL-ARKAN COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010274407, dated 11/10/1430 H (corresponding to 01/10/2009 G). It operates in development, maintenance and management of real estates, purchase of land and general contracting.

THAWABIT INVESTMENT COMPANY– is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010275449, dated 30/10/1430 H (corresponding to 19/10/2009 G). It operates in Real Estate investments and development.

DAR SUKUK INTERNATIONAL COMPANY – is a limited liability company, formerly known as Siyada investment Company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010275448, dated 30/10/1430 H (corresponding to 19/10/2009 G). It operates in Real Estate investments and development.

DAR AL-ARKAN PROPERTIES COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010521509, 22/6/1438 H (corresponding to 21/3/2017 G). It operates in Real Estate investments and developments, leasing and property management.

Dar Al-Arkan Real Estate Development Company wholly owns directly and indirectly the above mentioned subsidiaries.

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

The accompanying consolidated financial statements include the assets, liabilities and the results of operations of the subsidiaries mentioned above.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed by SOCPA and adopted in KSA, consistent with the Group's accounting policies.

These consolidated financial statements are presented in Saudi Riyals (SR), which is the Group's functional currency.

2.2 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards and interpretations effective in the current year

In the current year, the Group has adopted all new Interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC") that are mandatory for adoption in the annual periods beginning on or after 1 January 2017.

IFRS 1	Annual improvements	- Deletion of short-term exemptions for first-time adopters
IFRS 2	Amendment	- Classification and Measurement of Share-based Payment Transactions
IFRS 10	Amendments	- Interim condensed consolidated financial statements - Amended by Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IAS 7	Amendments	- Statement of Cash Flows – disclosure initiative
IAS 12	Amendments	- Income taxes - Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 3 & 11	Annual improvements	- When an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
IFRS 4 and 9	Amendment	- Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
IFRS 9	Amendment	- amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets.
IFRS 15	New standard-Effective date change	- Revenue from Contracts with Customers -defers effective date
IAS 23	Amendment	- borrowing costs eligible for capitalisation
IAS 28	Annual improvements	- Investments in Associates and Joint Ventures- Clarification on election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity
IAS 28	Amendment	- regarding long-term interests in associates and joint ventures
IAS 40	Amendments	- to clarify transfers or property to, or from, investment property

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

Generally the adoption of these interpretations has not led to any changes in the Group's accounting policies and disclosures provided in the consolidated financial statements.

Standards and interpretations in issue but not yet adopted

The following standards, amendments and interpretations were in issue at the date of authorisation of these financial statements, but not yet effective, and therefore were not applied in these consolidated financial statements.

The impact of the adoption of these standards is currently being assessed; however the directors anticipate that the adoption of these standards, amendments and interpretations in future periods will not have a significant impact on the consolidated financial statements of the Group.

IFRS 9	Amendment	- Amendments regarding prepayment features with negative compensation and modifications of financial liabilities
IFRS 17	New standard	- Insurance Contract
IAS 12	Amendment	- clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

2.3 ACCOUNTING CONVENTION

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments at fair value and investment in associates at equity method. The obligation of post-employment benefits are accounted for the present value of future obligation. The principal accounting policies are set out below.

2.4 BASIS OF CONSOLIDATION

The Group consolidates the financial statements of the Company and entities where the group has power over the investees, it is exposed, or has rights, to variable return from its involvements and has the ability to use its power to control and affect its return from the investees or subsidiaries. The consolidated financial statements of the Group consist of operations of the Company and entities controlled the Company or its Subsidiaries made up to 31 December 2017.

Subsidiaries

Subsidiaries are entities that are controlled by the Group. The Group controls an entity when, it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. Subsidiaries are fully consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any non-controlling interests. The interests of non-controlling shareholders are stated at the non-controlling proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the parent.

The excess of cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets

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SAUDI JOINT STOCK COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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acquired (i.e. discount on acquisition) is recognised directly in the consolidated statement of profit or loss and comprehensive income.

All intra-group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in associates and joint venture

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

A joint venture is a joint arrangement where the parties to the joint venture have rights to the net assets of the joint arrangement and have contractually agreed sharing of joint control over the relevant activities through which the parties to the arrangement can participate to the decision making of the relevant activities require unanimous consents and joint control.

Equity method

Under equity method of accounting, the investments in associates or a joint venture is initially recognised in the consolidated financial position at cost and adjusted by the post-acquisition changes in the Group's share of the profit or loss and other comprehensive income and the net assets of the associate or a joint venture, less any impairment in the value of individual investments. The results, assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Losses of the associates or a joint venture in excess of the Group's interests in those associates or joint venture are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in associates or a joint venture is accounted under equity method of accounting from the date of acquisition. Any excess of cost of acquisition over the Group's share of the fair values of identifiable net assets of the associate or a joint venture at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of identifiable net assets of the associate or a joint venture at the date of acquisition (i.e. discount on acquisition) is recognised in the consolidated statement of profit or loss and comprehensive income.

When the investment in associates or a joint venture is classified as held for sale or ceases to be an associates or a joint venture, from that date, the group discontinue the use of equity accounting. When a partial sale of an associate or a joint venture which results in losing significant influence over that associate or a joint venture, the remaining investment is measured at fair value on the date of sale and recognised as a financial asset. The differences between the attributable shares of carrying amount for the retaining interest in that associate or a joint venture and its fair value is included in the determination of gain or loss of the disposal of the associates or a joint venture. In addition, the Group reclassifies the gains or losses from equity, previously recognised in the other comprehensive income to the statement of profit or loss and comprehensive income.

Where a Group company transacts with an associate or a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interests in the relevant associate or a joint venture. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Investment in joint operation

A joint operation is an arrangement where Group entities have joint control of an arrangement and have legally binding rights to the assets and obligations for the liabilities of the arrangement. A Joint control is a legally agreed sharing of control of an arrangement and all the relevant activities of the arrangement require unanimous consent of the parties sharing control.

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Generally the adoption of these interpretations has not led to any changes in the Group's accounting policies and disclosures provided in the consolidated financial statements.

Standards and interpretations in issue but not yet adopted

The following standards, amendments and interpretations were in issue at the date of authorisation of these financial statements, but not yet effective, and therefore were not applied in these consolidated financial statements.

The impact of the adoption of these standards is currently being assessed; however the directors anticipate that the adoption of these standards, amendments and interpretations in future periods will not have a significant impact on the consolidated financial statements of the Group.

IFRS 9	Amendment	- Amendments regarding prepayment features with negative compensation and modifications of financial liabilities
IFRS 17	New standard	- Insurance Contract
IAS 12	Amendment	- clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

2.3 ACCOUNTING CONVENTION

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments at fair value and investment in associates at equity method. The obligation of post-employment benefits are accounted for the present value of future obligation. The principal accounting policies are set out below.

2.4 BASIS OF CONSOLIDATION

The Group consolidates the financial statements of the Company and entities where the group has power over the investees, it is exposed, or has rights, to variable return from its involvements and has the ability to use its power to control and affect its return from the investees or subsidiaries. The consolidated financial statements of the Group consist of operations of the Company and entities controlled the Company or its Subsidiaries made up to 31 December 2017.

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The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any non-controlling interests. The interests of non-controlling shareholders are stated at the non-controlling proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the parent.

The excess of cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
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An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

A joint venture is a joint arrangement where the parties to the joint venture have rights to the net assets of the joint arrangement and have contractually agreed sharing of joint control over the relevant activities through which the parties to the arrangement can participate to the decision making of the relevant activities require unanimous consents and joint control.

Equity method

Under equity method of accounting, the investments in associates or a joint venture is initially recognised in the consolidated financial position at cost and adjusted by the post-acquisition changes in the Group's share of the profit or loss and other comprehensive income and the net assets of the associate or a joint venture, less any impairment in the value of individual investments. The results, assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Losses of the associates or a joint venture in excess of the Group's interests in those associates or joint venture are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in associates or a joint venture is accounted under equity method of accounting from the date of acquisition. Any excess of cost of acquisition over the Group's share of the fair values of identifiable net assets of the associate or a joint venture at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of identifiable net assets of the associate or a joint venture at the date of acquisition (i.e. discount on acquisition) is recognised in the consolidated statement of profit or loss and comprehensive income.

When the investment in associates or a joint venture is classified as held for sale or ceases to be an associates or a joint venture, from that date, the group discontinue the use of equity accounting. When a partial sale of an associate or a joint venture which results in losing significant influence over that associate or a joint venture, the remaining investment is measured at fair value on the date of sale and recognised as a financial asset. The differences between the attributable shares of carrying amount for the retaining interest in that associate or a joint venture and its fair value is included in the determination of gain or loss of the disposal of the associates or a joint venture. In addition, the Group reclassifies the gains or losses from equity, previously recognised in the other comprehensive income to the statement of profit or loss and comprehensive income.

Where a Group company transacts with an associate or a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interests in the relevant associate or a joint venture. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Investment in joint operation

A joint operation is an arrangement where Group entities have joint control of an arrangement and have legally binding rights to the assets and obligations for the liabilities of the arrangement. A Joint control is a legally agreed sharing of control of an arrangement and all the relevant activities of the arrangement require unanimous consent of the parties sharing control.

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When the Group entity carry out its activities under joint operations, the Group recognises its interest under the joint operation as follows:

- The asset belongs to the Group, including its share of any assets acquired and held jointly;
- The Liabilities associated with the Group, including its share of any liabilities incurred jointly;
- Group's share of revenue arising from the joint operation;
- Group's expenses, including the share of expenses incurred jointly in the joint operations.

The Group accounts for the assets, liabilities, revenues and expenses associated with its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses. When the Group entity is a joint operator and the Group is involved with a sale or asset contribution to the joint operation, the profit and losses resulting from such transitions are recognised in the Groups consolidated financial statement only to the extent of other parties' share in the joint operation. When the Group entity is a joint operator and the Group is involved with a purchase transaction with the joint operation, the Group does not recognise the share of its gain or loss until such assets are resold to a third party.

2.5 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Cost includes all directly attributable expenses incurred in bringing the property and equipment to their present location, condition until the property and equipment is available for use. The management periodically review and reassess the estimated future useful life and residual value and accordingly may change or modify the depreciation rates.

Depreciation is charged so as to write off the cost less estimated residual value of assets, other than land, over their estimated useful lives, using the straight-line method, on the following rates:

Buildings	3%
Leasehold improvements	5% - 20%
Vehicles	25%
Machinery and tools	20%
Office equipment	20% - 25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated profit or loss.

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in consolidated profit or loss immediately.

2.6 INVESTMENT PROPERTIES

Investment properties principally comprise completed projects (including properties and developed land held for long term capital appreciation) and projects under development (including property projects under construction, land projects under development and land waiting for development). Investment properties are held to earn rentals and/or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative function. Projects under development include those properties in progress of development or waiting for development to commence. These properties are not used for generating sales revenues through normal business operations. The investment properties are initially recognised at cost and the

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cost of an acquisition is measured at fair value of the assets acquired / transferred. All developments costs (design, development and staff cost) that are directly attributable to the acquisition/ development of the properties are capitalized to derive the total cost.

An investment property is derecognised on sale or disposal when permanently withdrawn or transferred to development properties. Any gain or loss arising from derecognition of the property is recognised in consolidated profit or loss immediately.

Investment properties are held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost less estimated residual value of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following basis:

Buildings	3%
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Gains or losses arising from the retirement or disposal of investment properties being the difference between the net disposal proceeds and carrying value are included in the consolidated profit or loss for the period of the retirement/disposal except those that relate to sale and leaseback arrangements.

2.7 DEVELOPMENT PROPERTIES

All development properties are initially measured at acquisition cost and subsequently measured and accounted for lower of cost and net realisable value. This principally consists of projects under progress and land parcels under development for sales in the ordinary course of business, rather than to be held for rental or capital appreciation. Cost comprises all directly attributable cost including direct material cost, direct labour costs, borrowing costs and those overheads that have been incurred in bringing the development properties to their present location and condition. Cost is calculated using the average method. Impairment is tested comparing with net realisable value, which represents the estimated selling price less all estimated costs to completion and selling costs to be incurred.

The operating cycle of development properties is such that the majority of development properties are held for longer period and will not be realised within 12 months. If there is a change in management intention and identify any development property for immediate sale then the same is split between long-term and short-term development properties representing non-current and current portion of development properties respectively.

At each reporting date management categorises development properties projects as long term or short term depending on its estimated completion date. If the completion date of a project is expected to be within a year from the date of the consolidated statement of financial position, the project is classified as short term development properties

2.8 IMPAIRMENT OF TANGIBLE ASSETS

At each reporting date, the Group reviews the carrying amounts of its tangible assets for any indication that those assets have suffered impairment losses. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. When such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in the consolidated profit or loss.

2.9 ISLAMIC BORROWING COSTS

Islamic borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as finance costs in the consolidated profit or loss in the period in which they are incurred.

2.10 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's consolidated statement of financial position when the Group has become a party to the contractual provisions of the instrument.

Classification and measurement – financial assets

Classification and measurement of financial assets are based on the underlying business model and estimated cash flows. Any derivatives embedded in the contracts are not separated and is considered as a whole for classification. The financial assets are principally categorised as under;

- Measured at amortised cost
- Fair value through other comprehensive income(FVTOCI)
- Fair value through profit or loss (FVTPL)

Financial assets that are initially recognised at fair value are subsequently measured at amortised cost based on expected credit loss (ECL) described below:

- 12-month expected credit losses- expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date.
- Lifetime expected credit losses- expected credit losses that result from all possible default events over the life of the financial instrument.

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with IFRS 15.

Trade receivables

Trade receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest rate method less any provision for impairment. A provision for impairment is made where there is objective evidence, including customers with financial difficulties or in default on payments, that amounts will not be recovered in accordance with original terms of the agreement. An allowance for impairment is recognised when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective commission rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the consolidated profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank and other short-term deposits held by the Group with original maturities of three months or less.

Held for trading investments

Held for trading investments are recognised initially at fair value; transaction costs are taken directly to the consolidated statement of income and thereafter stated at fair value by reference to exchange quoted market bid prices at the close of business on the consolidated balance sheet date. The unrealized and realized gains and losses from sale of held for trading investments are recorded in the consolidated statement of income.

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FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

Financial liabilities

Financial liabilities include Islamic Sukuk and Islamic Murabaha and are classified according to the substance of the respective contractual arrangement and are initially measured at their fair value, net of transaction costs. Financial liabilities are subsequently carried at their amortised cost, with commission cost being recognised on an effective yield basis in the consolidated statement of profit or loss over the term of the instrument.

Trade payables

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method.

Islamic variable financial instruments

The Group designates certain hedging instruments, which include Islamic variable financial instruments in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as a cash flow hedges.

The Group initially recognises Islamic variable financial instruments as either a financial asset or a financial liability, at fair value, and subsequently re-measured to their fair value at the end of each reporting period. The accounting for changes in the fair value of an Islamic variable financial instrument depends on the intended use and the resulting designation of the Islamic variable financial instrument. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately, unless the Islamic variable financial instrument is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

For an Islamic variable financial instrument designated as a fair value hedge, the gain or loss is recognised in the consolidated statement of profit or loss in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

2.11 REVENUE RECOGNITION

Revenue represents the sale of properties, revenue from contract with customers and rental activities.

Sale of Properties

Properties developed and sold on completion or as is are recognised to the extent that it is probable that economic benefits will flow to the Group and significant risks and rewards of ownership have been transferred to the buyer, which is assessed to be at the time of legal completion of the sale or unconditional exchange. Revenue is measured at the fair value of consideration received.

Contract with customer

Properties developed and sold under a construction contract or agreement where the objective and the outcome of such contracts can be estimated reliably, the revenue and cost of such developments are recognised in proportion to the performed/measured stages of completion against the total contractual obligations/miles stones including variation, claims and incentives at the end of each reporting period, except where the performed work are not a representative of the stage of completion.

Where the outcome of the contract cannot be estimated reliably, the contract revenue is recognised to the extent of cost incurred and probability recoverable against such contract. All the cost incurred is recognised as expenses in the period in which it is incurred.

When it is probable that the total contract cost will exceed total contract revenue, the estimated loss is recognised as expenses immediately

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Leases

With respect to lease rental income, the Group recognises revenue on a straight line basis over the lease term.

2.12 ZAKAT

Zakat is calculated pursuant to Zakat Regulation in the Kingdom of Saudi Arabia and recognised in the respective subsidiaries or in the consolidated statement of profit or loss in each period. The provision is based on an estimate of Zakat that is adjusted in the financial period in which the final assessment of Zakat is issued by the General Authority of Zakat and Tax ("GAZT"). Any change in the estimate resulting from the final assessment is recognised in that period.

2.13 FOREIGN CURRENCIES

Transactions in currencies other than Saudi Riyals, the presentational and functional currency of each subsidiary within the Group, are recorded at the rates of exchange prevailing on the dates of the transactions. At the reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary assets and liabilities carried at fair value, that are denominated in foreign currencies, are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The resulting exchange gains or losses are recognised in the consolidated statement of profit or loss and comprehensive income.

2.14 STATUTORY RESERVE

According to the article (129) of the Companies' Regulation (Amendment 2016), the Group is required to retain 10% of net income in the statutory reserve. The Group may stop the transfers when this reserve reaches 30% of the share capital. This reserve is not available for dividend distribution.

2.15 END OF SERVICE INDEMNITIES

The Group provides end of service benefits to its employees in accordance with the labour law provisions of Saudi Arabia. The entitlement to these indemnities is based upon the employee's final salary, length of service and the completion of a minimum service period. The costs of these indemnities are accrued over the period of employment, based on the estimated ultimate payment.

Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income, in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

2.16 RETIREMENT BENEFIT COSTS

The Group makes contributions in line with the General Organisation for Social Insurance Regulations and are calculated as a percentage of employees' wages. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan. Payments made to defined contribution retirement benefit plans are charged as an expense as they fall due.

2.17 LEASING

Group as a lessor

Rentals receivable under operating leases are recognised to the consolidated profit or loss on a straight-line basis over the term of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Group as a lessee

At the inception of non-cancellable operating leases an asset identified as "right-of-use assets" measured at cost with appropriate discounting applied on relevant components of lease term and payment obligations including initial direct cost, lease escalations and lease incentives mentioned in the underlying lease agreement. Subsequent to the initial measurement and recognition, the "right-of-use assets" are periodically measured by using cost model which comprises initially measured cost and any re-measurement adjustments less accumulated depreciation.

Corresponding to this commencement date a "lease liability" is measured at the net present value of all the unpaid lease payments as on that date discounted at an appropriate rate. Subsequent to the initial measurements "lease liability" are periodically measured by increasing the carrying cost to reflect the interest charge on unpaid future lease liability and any re-measurement adjustment less lease payments made up to that date.

An appropriate rate of depreciation and profit rate is applied on "right- of-use assets" and "lease liability" respectively. Such depreciation and interest is charged to the consolidated profit or loss as depreciation and finance charges.

In case of existing, short term, small value and cancellable operating leases, the entity continues to charge the periodic lease payments to the consolidated profit or loss as an expense on straight-line basis over the term of the relevant lease.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience, internal controls, advice from external experts and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting judgments will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial periods are discussed below:

Revenue Recognition

The Group recognises revenue on sale of its properties when significant risks and rewards of ownership transfer to the buyer, which is assessed to be at the time of legal completion of the sale or unconditional exchange.

With respect to land properties/projects, the Group receives an initial non-refundable deposit upon signing the sale contract with the balance being paid on a deferred basis, which typically does not exceed three months. The Group recognises the full amount of the consideration at the time the sale contract is signed.

With respect to residential and commercial projects, The Group typically receives an initial deposit on the signature of the sales contract and the balance is collected over a period as per the terms of the contract. Revenue from the sale of these properties is only recognized when the sales and purchase agreement is signed and the completed property is delivered to the purchaser.

With respect to residential and commercial projects sold under a construction contract or agreement and the objective and the outcome of such contracts can be estimated reliably, the revenue and cost of such developments are recognised as per under IFRS 15 in proportion to the performed/measured stages of completion against the total contractual obligations/milestones including variation, claims and incentives at the end of each reporting period, except where the performed work are not a representative of the stage of completion.

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FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

With respect to lease rental income, the Group recognises revenue on a straight line basis over the lease term in accordance with IFRS 16.

Recognition of cost of sales

The Group has developments which typically contain a number of individual projects within each development. In order to determine cost of sales related to properties or units sold during the year the management estimates and average the costs of the entire developments, including infrastructure costs and overall construction and other directly attributable costs to arrive the total estimated cost of the project. These estimated costs are allocated to each project within the development and each unit within a project. These estimates are reviewed regularly on a profit per project basis and revised as necessary. Any significant change in these estimates may result in additional costs being recorded in future periods related to revenue recognised in a prior period.

Measurement of contract assets and trade receivables

The group management makes significant assumptions on the estimation of expected credit loss (ECL) in connection with contract assets and/or trade receivables which is assessed based on the terms of contract and evaluation is made where there is objective evidence, including customers with financial difficulties or in default on payments, possibilities of bankruptcy of the customer that amounts will not be recovered in accordance with original terms of the agreement. Based on such periodic assessment the Company recognise for full lifetime expected losses for all contract assets and/or all trade receivables with or without significant financing transaction and for lease receivables. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses in accordance with IFRS 9.

Classification of properties

The Group's properties are classified as either investment properties or development properties. Management has made various judgments to determine whether a property qualifies as an investment property which is held to earn rentals and/or for capital appreciation or both. These are not used for generating sales revenues through normal business operations. A development property comprises completed properties, developed land, property projects under construction, land projects under development and land awaiting development predominantly identified for sale in the ordinary course of business. In making its judgment, management considers its intended use of property. When management assess that certain investment properties will be disposed as part of normal business operation, their carrying cost will be transferred to development properties for final completion of development and transfer.

Subsequent transfer of Investment Properties

Investment properties are the interests in land and/or buildings that are held for their investment potential and not for sale in the ordinary course of business. Management assesses the intended use of its real estate properties on continuous basis and summarises the portfolio at every reporting period. When the periodic management assessment identifies any change in the use of a property previously classified as investment properties, their carrying cost is transferred to development properties for further development and final transfer under ordinary course of business. While re-assessing the intended use, management considers the holding period, possibility of further appreciations, related economic activities around such properties and need for further development to make the property ready for sale.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with the intent to sale.

Carrying value of development properties

The Group's principal activity is currently the development and sale of land, residential and commercial property. Due to the nature of this activity, much of the development is speculative in nature. Accordingly, the consolidated

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

statement of financial position at 31 December 2017 reflects current assets that are not covered by forward sales contracts.

The Group assesses the net realisable value of its development properties at each reporting date. This assessment is based on a profit per project basis and compares the carrying and estimated future costs to complete with the expected selling price per unit based on historical activities and available comparables in the surrounding location. As a result of this process, there have been no instances where the estimated net realisable value of the site/unit was less than its current carrying value within the consolidated statement of financial position. A change of these estimates in the future could have an impact on the valuation of the development properties.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

While estimating the fair value of an asset or a liability the group take into consideration of the assumptions that market participants would use when pricing the asset or liability for their best economic interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the best use or by selling it to another market participant for the best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

For the financial reporting purpose, The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities;

- Level 1: Quoted prices in active markets for the same instrument (i.e., without modification or additions);
- Level 2: Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data and
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

For the determination of the fair value of the properties, valuations are arrived internally by using group management's subjective expertise and location knowledge together with comparable transactions recorded in the surrounding area for non-related arms lengths transactions. The group also engage third party independent real estate valuation experts using recognised valuation methods to value the properties wherever it is possible and practical. The fair value arrived using this methodologies disclosed as a percentage (%) of net-margin over the carrying cost.

The group also estimates the fair value of its investment properties and development properties by using the Internal Rate of Return and Income Capitalisation Method.

Under IRR method the group estimates future cash flows from assets considering future revenue streams, development costs and all directly attributable cost including financing cost, market risk and targeted profit. These assumptions and estimates are reviewed periodically based on the market conditions existing at the end of every reporting period, to arrive a targeted IRR.

Under capitalisation method the income receivable under existing lease agreements are extrapolated to arrive at projected future rental revenues, which is capitalised at appropriate rates reflecting the investment market conditions at the valuation dates.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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The groups future rental stream estimations are based on certain assumptions and are subject to market volatility, uncertainty and can materially differ from the actual results. The absence of well-developed and active market condition brings greater degree of uncertainty and volatility to estimated fair valuation of investment properties than which exists in a more active market.

Below are the key assumptions the group used to estimate fair value of its investments assets:

	2017	2016
	Range	Range
Profit margin on carrying cost –development properties	33% - 37%	46%
Targeted IRR –development properties	7-10%	8-12%
Estimated Capitalisation of yields- investment properties	5-7%	5-7%

4 REPORTING SEGMENTS

Management has organised the Group into three segments for the purpose of reporting to the chief operating decision maker. Management develops its strategic planning and business model around these segments that consist of:

- Development Properties – the development of basic infrastructure on undeveloped land ("Land Projects") and the development of residential and commercial projects and the sale of units on such projects ("Residential and Commercial Projects").
- Investments – strategic investment in companies that management believes are complementary to the Group's real estate development operations.
- Asset Management – leasing and management of properties that the Group has retained as rental properties including commercial and residential units on its Master-Planned Communities for generating recurring revenues.

The Group does not allocate share of profits of associates, general administration, selling and marketing costs including directors' salaries, finance costs, other income and Zakat expense to its segments. Substantially all of segment operating activity (including revenue and costs) for the year ended 31 December 2017 and the year ended 31 December 2016 was generated from the developed properties segment. The Group provided breakdown of revenue, profit, assets and liabilities by operation segment. The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2.

The Group operates exclusively in Saudi Arabia and all its revenues are derived from its portfolio of properties which the Group manages.

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The segment wise revenue, gross margin, operating expenses, profit, assets and liabilities from sales of development properties (land, residential and commercial projects) and leasing of properties are presented below:

	Notes	For the year ended 31 December 2017		
		Sale of Developed Properties SR 000	Leasing of Properties SR 000	Group Total (Unaudited) SR 000
SEGMENT WISE PROFIT & LOSS				
Revenue		4,584,819	149,863	4,734,682
Cost of revenue		(3,548,793)	(71,879)	(3,620,672)
GROSS PROFIT		1,036,026	77,984	1,114,010
Operating expenses:				
General and administrative expenses	19			(160,085)
OPERATING PROFIT				
				953,925
Finance costs	20			(441,523)
Other income, net				36,722
Share of net profit from associates and joint ventures	8 a			20,604
SEGMENT PROFIT FOR THE YEAR				
				569,728
SEGMENT WISE ASSETS & LIABILITIES				
TOTAL ASSETS				
		22,977,174	3,264,131	26,241,305
TOTAL LIABILITIES				
		7,445,199	62,556	7,507,755

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	<u>Notes</u>	<u>Year ended 31 December 2016</u>		
		<u>Sale of Developed Properties</u>	<u>Leasing of Properties</u>	<u>Group Total (Unaudited)</u>
SEGMENT WISE PROFIT & LOSS		SR 000	SR 000	SR 000
Revenue		1,724,681	145,548	1,870,229
Cost of revenue		(1,004,809)	(73,477)	(1,078,286)
GROSS PROFIT		719,872	72,071	791,943
Operating expenses:				
General and administrative expenses	19			(160,028)
OPERATING PROFIT				631,915
Finance costs	20			(385,984)
Other income, net				(32)
Share of net profit from associates and joint ventures	8 a			12,878
SEGMENT PROFIT FOR THE YEAR				258,777
SEGMENT WISE ASSETS & LIABILITIES				
TOTAL ASSETS		20,910,096	3,575,678	24,485,774
TOTAL LIABILITIES		6,229,186	79,081	6,308,267

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5. INVESTMENT PROPERTIES, NET

The movement in investment properties is as follows:

	<u>2017</u>	<u>2016</u>
	SR 000	SR 000
COST		
At beginning of the year	3,714,178	3,717,560
Transfer to development properties	(76,999)	-
Additions	-	(3,382)
At end of the year	<u>3,637,179</u>	<u>3,714,178</u>
ACCUMULATED DEPRECIATION		
At beginning of the year	289,400	215,923
Transfer to development properties	(14,110)	-
Charged during the year	71,879	73,477
At end of the year	<u>347,169</u>	<u>289,400</u>
CARRYING AMOUNT AT THE END OF THE YEAR	<u>3,290,010</u>	<u>3,424,778</u>

Included within investment properties is land with an original cost of SR 578.1 million (31 December 2016: SR 578.1 million).

Fair value estimation:

Fair value of the investment properties are estimated by management by using income capitalisation method, the range of capitalisation rates are determined based on the nature and the designated use of the assets and various external valuation references for similar type of assets. The annualised lease cash flows are estimated by extrapolating and adjusting current lease revenues for optimal occupancy and capitalising it at an annual rent yield of 5-7% between residential and commercial leased properties to arrive the fair value estimated as below:

	<u>2017</u>	<u>2016</u>
	SR 000	SR 000
COST		
	<u>3,290,010</u>	<u>3,424,778</u>
ESTIMATED FAIR VALUE		
Estimated on rent yield of 5-7 % on		
Investment properties	<u>3,313,183</u>	<u>3,596,000</u>

The fair valuation of investment properties is categorised under Level 3 in the fair value hierarchy

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6. DEVELOPMENT PROPERTIES

The movement in development properties, the principle operation of the Company, are summarised as follows:

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017				
	Short-term Developed Projects	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST					
At beginning of the year	-	317,325	1,581,442	15,139,619	17,038,386
Additions during the year	692	5,432	16,648	1,298,986	1,321,758
Transfer	62,889	-	-	-	62,889
Charged to cost of sales during the year	(14,354)	(249,309)	(823,060)	(2,462,070)	(3,548,793)
CARRYING AMOUNT AT THE END OF THE YEAR	49,227	73,448	775,030	13,976,535	14,874,240
Short- term development properties					122,675
Long-term development properties					14,751,565

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016			
	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000
COST				
At beginning of the year	437,185	1,963,764	14,633,477	17,034,426
Additions during the year	-	25,000	983,769	1,008,769
Charged to cost of sales during the year	(119,860)	(407,322)	(477,627)	(1,004,809)
CARRYING AMOUNT AT THE END OF THE YEAR	317,325	1,581,442	15,139,619	17,038,386
Short- term development properties				317,325
Long-term development properties				16,721,061

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Projects under development includes land worth SR 6.63 billion (31 December 2016: SR 6.23 billion), which represents the Group's share of co-ownership with third parties according to the contracts of land development.

During the year ended 31 December 2017 the Group has capitalised Islamic borrowing costs amounting to SR nil (31 December 2016: nil) on qualifying assets. Islamic borrowing costs were capitalised at an annual weighted average capitalisation effective rate of 0% (31 December 2016: 0%).

Fair value estimation:

During the year the Group's management and directors conducted an internal review and valuation of the real estate portfolio of development properties which resulted in a fair value indicating an average uplift of 35% (31 December 2016 46%) across the development property portfolio. The management believes that the resultant uplift on the book value is a conservative indication of the fair value of the properties of the Group.

In view of the continuing volatility and uncertainty in the real estate market the transaction volumes are showing considerable stabilisation on lowering price trend. Hence to normalise the fair value assumptions along with known comparable transaction at arms-length around properties, the management included additional valuation methodologies and measures of average IRR in the range of 5-7% for development properties to arrive at the fair value estimate.

31 DECEMBER 2017

	2017				
	Short-term Developed Project	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST	49,227	73,448	775,030	13,976,535	14,874,240
ESTIMATED FAIR VALUE					
Estimated @ 35% margins on cost – Land	50,000	99,000	1,046,000	18,868,000	20,063,000
Estimated @ 5-7 % IRR – Land	50,000	151,000	1,390,000	21,628,000	23,219,000
Average fair value on land	50,000	125,000	1,218,000	20,248,000	21,641,000
Estimated fair value	50,000	125,000	1,210,000	20,240,000	21,625,000

31 DECEMBER 2016

	2016				
	Short-term Developed land	Developed land	Projects under Developments	Total	
	SR 000	SR 000	SR 000	SR 000	
COST	317,325	1,581,442	15,139,619	17,038,386	
ESTIMATED FAIR VALUE					
Estimated @ 46% margins on cost – Land	463,000	2,309,000	22,104,000	24,876,000	
Estimated @ 8-12 % IRR – Land	701,000	2,983,000	25,080,000	28,764,000	
Average fair value on land	582,000	2,646,000	23,592,000	26,820,000	
Estimated fair value	582,000	2,646,000	23,592,000	26,820,000	

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Sensitivity in fair value estimation:

The estimated fair value of Group's investment properties and development properties can be impacted by the occurrence of interrelated unobservable inputs determined by existing market conditions. The impact of two unobservable inputs may not be off-setting each other; for example, an increase in capitalisation rate may off-set an increase in annual rent but an increase in annual rent with a decrease in capitalisation rate would boost the fair value.

	<u>Increase</u>	<u>Decrease</u>
	SR 000	SR 000
Change in fair value on land		
10% change in comparable margins	1,487,000	(1,487,000)
1% change in IRR	1,819,000	(1,682,000)
Average change in fair value on land	1,653,000	(1,584,000)
 Change in fair value on Properties		
50 basis points change in capitalisation rate	257,000	(219,000)
Sensitivity impact on estimated fair value	1,910,000	(1,803,000)

The fair valuation of investment properties are categorised under Level 3 in the fair value hierarchy

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

7. PROPERTY AND EQUIPMENT, NET

<u>2017</u>	Land and buildings SR 000	Leasehold improvement SR 000	Vehicles SR 000	Machinery and tools SR 000	Office equipment SR 000	Total SR 000
COST						
Balance at 1 January 2017	109,145	19,037	8,447	13,509	42,058	192,196
Additions for the year	-	127	-	302	6,622	7,051
Transfer	-	(13,021)	-	-	(8)	(13,029)
Balance at 31 December 2017	109,145	6,143	8,447	13,811	48,672	186,218
ACCUMULATED DEPRECIATION						
Balance at 1 January 2017	45,139	19,037	8,445	13,507	40,706	126,834
Depreciation for the year	3,016	8	-	23	926	3,973
Transfer	-	(13,021)	-	-	(8)	(13,029)
Balance at 31 December 2017	48,155	6,024	8,445	13,530	41,624	117,778
CARRYING AMOUNT AT 31 DECEMBER 2017	60,990	119	2	281	7,048	68,440
<u>2016</u>						
COST						
Balance at 1 January 2016	109,145	19,037	8,447	13,509	41,446	191,584
Additions for the year	-	-	-	-	612	612
Balance at 31 December 2016	109,145	19,037	8,447	13,509	42,058	192,196
ACCUMULATED DEPRECIATION						
Balance at 1 January 2016	42,123	19,037	8,445	13,480	40,083	123,168
Depreciation for the Year	3,016	-	-	27	623	3,666
Balance at 31 December 2016	45,139	19,037	8,445	13,507	40,706	126,834
CARRYING AMOUNT AT 31 DECEMBER 2016	64,006	-	2	2	1,352	65,362

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FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

Investments in associates and joint venture represent investments in shares of companies, where the Group exercises significant influence. The shares of these companies are not publicly traded. The Group's ownership in these Saudi Arabia based privately owned companies ranges from 15% to 51%. For entities where the investment is less than 20%, management believes that it is able to exert significant influence due to its involvement at board level. Movement in investments in associates and joint ventures is as follows:

a. Investments in associates and joint ventures:

	2017	2016
	SR 000	SR 000
Investments, beginning of year	790,585	776,207
Additions	-	1,500
Share of profit during the year	20,604	12,878
Investments, end of year	811,189	790,585

b. Summarised details of holding in respect of the Group's associates and joint venture is set out below:

Name of the entity	Amount invested	% of Holding
	SR 000	
Saudi Home Loans (SHL)	120,000	15%
Alkhair Capital Saudi Arabia (ACS)	102,000	34%
Khozam Real Estate Development Company (i) (KDC)	525,547	51%
Juman company	1,500	18%
Accumulated share of profits	62,142	
Balance, end of the year	811,189	

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- c. Summarised financial information in respect of the Group's associates and joint venture is set out below:

31 DECEMBER 2017	Juman	KDC	ACS	SHL	TOTAL
	SR 000	SR 000	SR 000	SR 000	SR 000
Total assets	-	541,828	287,876	4,285,906	5,115,610
Total liabilities	-	(36,693)	(32,232)	(2,851,565)	(2,920,490)
Net assets	-	505,135	255,644	1,434,341	2,195,120
Group's share of net assets	1,500	507,619	86,919	215,151	811,189
Total revenue for the year	-	-	59,535	156,195	215,730
Total profit for the year	-	(2,820)	22,369	91,486	111,035
Total cumulative earning at end of the year	-	(35,610)	(44,356)	634,340	554,374
Total cumulative earning at end of last year	-	(32,332)	(69,009)	541,715	440,374
Change for the year	-	(3,278)	24,653	92,625	114,000
Group's share of cumulative profit for the year	-	(1,672)	8,382	13,894	20,604
31 DECEMBER 2016	Juman	KDC	ACS	SHL	TOTAL
	SR 000	SR 000	SR 000	SR 000	SR 000
Total assets	-	542,547	254,996	4,119,969	4,917,512
Total liabilities	-	(34,134)	(24,006)	(2,778,254)	(2,836,394)
Net assets	-	508,413	230,990	1,341,715	2,081,118
Group's share of net assets	1,500	509,233	78,628	201,224	790,585
Total revenue for the year	-	-	24,472	116,040	140,512
Total profit for the year	-	(4,994)	(1,603)	71,648	65,051
Total cumulative earning at end of the year	-	(32,332)	(69,009)	541,715	440,374
Total cumulative earning at end of last year	-	(27,794)	(70,857)	444,620	345,969
Change for the year	-	(4,538)	1,848	97,095	94,405
Group's share of cumulative profit for the year	-	(2,314)	628	14,564	12,878

Details of transactions with associates and joint ventures are disclosed under note 23 "Related Party Transactions" of these consolidated financial statements.

- (i) The Group had invested 51% in Khozam Real Estate Development Company (KDC), with Jeddah Development and Urban Regeneration Company (JDURC). As per the arrangements the power to govern the financial and operating activities which affect the returns of KDC is jointly bestowed with the shareholders. Accordingly the Group does not have any right to variable returns or absolute power to control with the ability to affect the returns of the investee company consequently, the Group's investment in KDC is accounted for as investment in joint venture under equity method of accounting.

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- (i) The KDC investment include SR 250 million as an exclusive right to participate in the Khozam project development and SR 276 million as capital contribution fully paid in cash. The other shareholder (JDURC) contributed SR 265 million worth of land as capital contribution. The management believes that the value of the total investment has not diminished.
- (ii) During 2016 the group had invested 18% in Juman Company a limited liability company under incorporation for the real estate development and paid towards its initial capital requirement for the formation of the company. This entity has not started any operation.

9. OTHER ASSETS (DEFERRED CHARGES), NET

The movement during the year is as below:

	<u>2017</u> SR 000	<u>2016</u> SR 000
Balance, beginning of the year	828	-
Additions during the year	1,122	828
Amortisation charge for the year	-	-
Balance, end of the year	<u>1,950</u>	<u>828</u>

10. TRADE RECEIVABLES AND OTHERS

	<u>2017</u> SR 000	<u>2016</u> SR 000
Trade receivables – net of allowances for doubtful debts of SR 19.02 million (31 December 2016: SR 19.02 million)	3,338,618	1,839,470
Advance payments to purchase land	559,670	697,190
Accrued revenue	2,219	2,208
Prepayments and others	131,955	43,247
Short term investment- trading (note 10c)	863	863
	<u>4,033,325</u>	<u>2,582,978</u>

The fair value of financial assets included above approximates the carrying amount. No penalties are charged for delayed payments.

Trade receivable disclosed above include amounts (see below for ageing analysis) that are past due from the date of invoice, at the end of the reporting period for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality.

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FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

a) Ageing of trade receivables that are due but not impaired

	2017	2016
	SR 000	SR 000
0-60 days	1,839,703	1,006,178
61-120 days	656,027	528,103
121-180 days	528,452	144,471
Above 180 days	314,436	160,718
Total	<u>3,338,618</u>	<u>1,839,470</u>

Ageing are from the date of invoice and the trade receivables include about 98% (31 December 2016: 92%) receivables against land and project sales which are fully secured against such land and project parcels.

b) Movement in the allowance for doubtful debts

	2017	2016
	SR 000	SR 000
Balance, beginning of the year	19,019	18,019
Allowance for the year	-	1,000
Balance, end of the year	<u>19,019</u>	<u>19,019</u>

c) Short term investment – Fair value through profit or loss (FVTPL)

The group has an investment, classified as held for trading, through portfolio management account with a leading Saudi Asset Management broking institution ("fund manager") and as per the portfolio management agreement the fund manager is allowed to trade in debt and equity securities on behalf of the Group. The transaction during the year is detailed below:

	2017	2016
	SR 000	SR 000
Balance, beginning of the year	863	804
Purchased / sold during the year	-	-
	<u>863</u>	<u>804</u>
Realised gains	-	59
Total	<u>863</u>	<u>863</u>
Transfers/withdrawals	-	-
Balance, end of the year	<u>863</u>	<u>863</u>

Investment includes SR 863 thousand as at 31 December 2017 (31 December 2016 SR 863 thousand) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods.

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FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

11. CASH AND CASH EQUIVALENTS

	2017	2016
	SR 000	SR 000
Cash in hand	1,307	786
Cash with bank	3,158,359	581,302
Total	3,159,666	582,088

12. LONG-TERM BORROWINGS

	2017	2016
	SR 000	SR 000
Islamic Sukuk	4,719,263	3,187,500
Islamic Murabaha	1,760,575	2,093,025
	6,479,838	5,280,525
Less: Un-amortised transaction costs (note 12 b)	(80,856)	(65,155)
Borrowings end of the year	6,398,982	5,215,370
Less: Borrowing -short-term maturity portion	(1,678,648)	(324,995)
Borrowing -long-term maturity portion	4,720,334	4,890,375

a. Repayable as follows:

	2017	2016
	SR 000	SR 000
Within one year	1,690,463	332,450
In the second year	1,859,325	2,033,700
In the third to fifth years inclusive	2,930,050	2,914,375
	6,479,838	5,280,525

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FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

b. Islamic borrowings transaction costs:

	2017	2016
	SR 000	SR 000
Balance, beginning of the year	65,155	97,373
Additions during the year	48,551	230
Amortisation charge for the year	<u>(32,850)</u>	<u>(32,448)</u>
Balance, end of the year	<u>80,856</u>	<u>65,155</u>

c. Analysis of borrowings:

This represents SR 5.06 billion of Islamic Sukuk comprising:

- 1) SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 5.75% and maturing in 2018, of which SR 343.23 million (USD 91.53 million) bought back during 2017 resulting an outstanding of SR 1.35 billion (USD 358.47 million) as at 31 December 2017.
- 2) SR 1.50 billion (USD 400 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.5% and maturing in 2019.
- 3) SR 1.88 billion (USD 500 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.9% and maturing in 2022.

Islamic Sukuks listed above are denoted in US dollars. Since the Saudi Arabian Riyal is limited to fluctuations in the US Dollar there is no exposure to foreign exchange risk. The investment profit is payable to the Saudi SPV, through which the Sukuk was issued, by the sale of properties owned by the Group. The beneficiary rights of these properties are with Dar Al Arkan Real Estate Development Company and its subsidiaries with the rights to buy back the ownership of these properties upon the full repayment of the Sukuk. The Group has issued a corporate guarantee to the Sukuk holders.

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 December 2017.

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Islamic Murabaha

This represents the bilateral Murabaha facilities from local and international commercial banks, secured against certain real estate properties, in the form of Islamic Murabaha, letters of guarantee and letters of credit. These facilities comprise of long- term and short- term tenures ranging from 6 months to 10 years with various repayment schedules like annual roll revolvers, bullet payments and instalment repayments ranging from quarterly and half yearly as detailed below.

Summary of the Murabahas:

Maturity date	Outstanding Balance	Short-term	Long-term
	SR 000	SR 000	SR 000
2020	958,125	315,000	643,125
2023	530,450	16,200	514,250
2027	272,000	15,000	257,000
TOTAL	1,760,575	346,200	1,414,375

The total weighted average effective annual commission rate for the year ended 31 December 2017 is 6.95% (31 December 2016: 6.06%)

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2017.

13. END OF SERVICE INDEMNITIES

The Group provides a defined end of service benefit plan to its employees in line with the labour law provisions and requirement in the Kingdom of Saudi Arabia for respective entities under the Group. The payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of cessation of their employment, as defined by the conditions stated in the labour laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plans are unfunded plans where the respective entities meet the benefit payment obligations as it falls due.

The movement of the obligation accrued is as follows:

	2017 SR 000	2016 SR 000
Balance, beginning of the year	25,682	20,973
Charged to expenses during the year	5,129	6,317
Re-measurement gain	(2,675)	-
Paid during the year	(6,175)	(1,608)
Balance, end of the year	21,961	25,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

During the year the Group conducted an actuarial valuation and the relevant disclosures are as follows;

A- Significant actuarial assumptions:

	<u>2017</u>	<u>2016</u>
Discount rate	3.0%	3.0%
Long term salary increase rate	3.0%	3.0%
Employee attritions	<u>Moderate</u>	<u>Moderate</u>

B- Movement in present value of employee benefit obligation

	<u>2017</u> <u>SR 000</u>	<u>2016</u> <u>SR 000</u>
Balance, beginning of the year	25,546	22,334
Net period benefit cost	4,886	4,820
Re-measurement gain	(2,675)	-
Paid during the year	<u>(6,175)</u>	<u>(1,608)</u>
Balance, end of the year	<u>21,582</u>	<u>25,546</u>

C- Analysis of present value of obligation

	<u>2017</u> <u>SR 000</u>	<u>2016</u> <u>SR 000</u>
Benefit obligation earned and accumulated to the date of financial position	16,923	18,937
Benefits attributed to future salary increase	4,659	6,609
Total	<u>21,582</u>	<u>25,546</u>

D- Sensitivity Analysis of obligation

The sensitivity of employee benefit obligation is calculated based on a change in an assumption while all other significant actuarial assumptions, used in the valuations employee benefit obligation, remained unchanged. The vale impact in the obligation with a change in an assumption as follows:

	<u>2017</u> <u>SR 000</u>	<u>2016</u> <u>SR 000</u>
Discount rate + 0.5%	20,715	24,311
Discount rate - 0.5%	22,513	26,883
Long term salary increase + 0.5%	22,562	26,941
Long term salary increase - 0.5%	20,661	24,246

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

E- Effect of defined benefit plan on entity's future cash flows

The weighted average duration of the employee benefit obligation is 8.03 years for the year ended December 31, 2017 (31 December 2016: 9.67). The expected maturity analysis of undiscounted defined benefit obligation is as follows:

	2017	2016
	SR 000	SR 000
Within one year	2,286	1,546
In the second year	3,781	2,519
Between third and fifth years	5,490	3,322
Above five years	10,025	18,295
	<u>21,582</u>	<u>25,682</u>

14. TRADE PAYABLES AND OTHERS

	2017	2016
	SR 000	SR 000
Trade payables	173,352	173,457
Due to related parties (note 23a)	192,530	193,363
Accruals	89,730	62,286
Unpaid dividend	35,350	35,358
Lease liability (note 22b)	2,301	742
Unearned revenue	43,879	64,515
	<u>537,142</u>	<u>529,721</u>

Trade payables and others principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 30 days (31 December 2016: 30 days).

The fair value of financial liabilities included above approximates the carrying amount.

15. ZAKAT PROVISIONS

a) The principal elements of the Zakat base are as follows:

	2017	2016
	SR 000	SR 000
<u>Zakat base:</u>		
Equity	17,720,285	17,441,756
Provisions and other adjustments	3,386,684	2,980,955
Total Zakat base	<u>21,106,969</u>	<u>20,422,711</u>
<u>Deductions:</u>		
Total deduction after adjustment	<u>(21,106,969)</u>	<u>(20,422,711)</u>
Zakat base	<u>-</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

b) Adjusted net income for the year:

	2017 SR 000	2016 SR 000
<u>Adjusted net income:</u>		
Income for the year before Zakat	546,161	244,801
Adjusted net income	546,161	244,801
Estimated Zakat and Tax provision for the year	14,443	7,943

c) The movement in provision for Zakat:

Zakat is recognized and provided for in the financial statements and the movement of Zakat is as follows:

	2017 SR 000	2016 SR 000
Balance beginning of the year	537,494	555,757
Estimated Zakat for the year	14,443	7,943
Paid during the year	(2,267)	(26,206)
Estimated Zakat provision, end of the year	549,670	537,494

d) The Company has received the assessments from GAZT for the years 2003 to 2007. The company had filed the consolidated zakat return for years 2008 to 2016.

16. SHARE CAPITAL

	2017 SR 000	2016 SR 000
<i>Authorised:</i>		
1,080,000,000 ordinary shares of SR 10 each	10,800,000	10,800,000
Issued and fully paid shares of SR 10 each		
At the start of the year	10,800,000	10,800,000
At the end of the year	10,800,000	10,800,000

The Group has one class of ordinary shares which carry no right to fixed income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

17. REVENUE

	2017	2016
	SR 000	SR 000
Sale of land	4,563,391	1,724,681
Sale of residential properties	21,428	-
Leasing of properties	149,863	145,548
Total	4,734,682	1,870,229

18. COST OF REVENUE

	2017	2016
	SR 000	SR 000
Land cost	3,534,439	1,004,809
Residential properties-cost	14,354	-
Direct cost on leasing – Depreciation	71,879	73,477
Total	3,620,672	1,078,286

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
	SR 000	SR 000
General and administrative expenses	157,106	156,005
Depreciation (refer note 7 & 22a)	4,896	4,023
Total	162,002	160,028

20. FINANCE COSTS

	2017	2016
	SR 000	SR 000
Charges on Sukuk	287,697	253,374
Charges on Islamic Murabaha	120,915	100,117
Charges on Lease liability (note 22b)	61	45
Amortisation of transaction costs (note 12b)	32,850	32,448
Total	441,523	385,984

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

21. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2017 SR 000	2016 SR 000
Earnings		
For the purpose of basic earnings per share (Net profit for the year)	553,368	250,834
Number of shares	Number	Number
Weighted average number of ordinary shares For the purposes of basic earnings per share	1,080,000,000	1,080,000,000

There is no dilution of ordinary shares and as such the basic and diluted earnings per share calculation are consistent.

22. OPERATING LEASE ARRANGEMENTS

A: GROUP AS LESSEE

a) Right of use assets

Below is the "right of use assets" for the lease arrangements entered and unexpired as at the reporting date, qualifying for accounting under IFRS 16. The details and movements for this assets is summarised as follows, and the depreciation charged to this asset is included in depreciation expenses.

	2017 SR 000	2016 SR 000
COST		
At beginning of the year	1,126	-
Additions for the year	3,079	1,126
Transfer/ retirements	(537)	-
At end of the year	3,668	1,126
ACCUMULATED DEPRECIATION		
At beginning of the year	357	-
Charged during the year	923	357
Transfer/ retirements	(97)	-
At end of the year	1,183	357
NET BOOK VALUE AT THE END OF THE YEAR	2,485	769

The balance in right of use assets are included with the property plan and equipment (refer note 7)

Summary adjustments

Under IFRS 16 requirements, the group identified summary adjustments amounting to SAR nil (31 December 2016 SAR 152 thousand) as a result of retrospective period adjustments for the unexpired operating leases. This amount has been fully recognised and charged as expenses in the consolidated profit or loss for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

b) Lease liability

The "lease liability" to account for its unexpired operating lease qualified for accounting under IFRS 16 requirements and the details of the movements are as below. The interest cost accrued is included in the financing charges.

	2017 SR 000	2016 SR 000
LIABILITY		
At beginning of the year	1,171	-
Additions for the year	3,079	1,126
Transfer/ retirements	(\$60)	-
Finance cost for the year	61	45
At end of the year	3,751	1,171
PAYMENTS		
At beginning of the year	429	-
Paid during the year	1,021	429
At end of the year	1,450	429
BALANCE AT THE END OF THE YEAR	2,301	742

The balance in lease liability is included with trade payables and others (refer note 14)

c) Minimum lease payments

The minimum lease payments under non-cancellable operating lease rentals are as follows:

	2017 SR 000	2016 SR 000
Amounts due:		
Within one year	1,025	454
Between one and five years	2,463	889
After five years	-	-
	3,488	1,343

B: GROUP AS LESSOR

The minimum lease receivables under non-cancellable operating lease rentals are as follows:

	2017 SR 000	2016 SR 000
Amounts Receivable:		
Within one year	59,496	55,163
Between one and five years	145,604	110,309
After five years	29,782	61,040
	234,882	226,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

23. RELATED PARTY TRANSACTIONS

a) Due to related parties

The Khozam Real Estate Development Company (KDC) management requested to invest excess cash balance of KDC with the group at a nominal profit. The details of the transactions, included in trade payable and other (refer note # 14), are as follows:

	2017	2016
	SR 000	SR 000
Balance, beginning of the year	193,363	194,253
Repayment of advances for the year	(1,553)	(1,130)
Profit charged for the year	720	240
Balance, end of the year	192,530	193,363

b) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year are as follows:

	2017	2016
	SR 000	SR 000
Short-term benefits	8,641	9,257
End-of-service benefits	857	770
Remunerations and attendance fees to Board of Directors and Executive Committee	-	-
	9,498	10,027

c) Other related party transactions

(i) Bank Alkhair B.S.C

The Group engaged Bank Alkhair B.S.C, a non-associate entity, to provide general financial advisory, Shariah' compliance advises and management support for the recent international sukuk. The details of the transactions, included in trade payable under trade payable and others (refer note # 14), are as follows:

	2017	2016
	SR 000	SR 000
Balance, beginning of the year	115	115
Fees & expenses charged for the year	(115)	-
Amounts paid during the year	-	-
Balance, end of the year	-	115

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(ii) Alkhair Capital Saudi Arabia

The Group engaged Alkhair Capital Saudi Arabia, an associate entity, to provide general financial advisory, representing and filing the documents on behalf of the Group for requirements with CMA and other statutory bodies, Shariah' compliance reviews and management support for the local and international borrowing including recent international sukuk issuances and leasing/subleasing of properties. The details of the transactions, included in trade payable under trade payable and others (refer note # 14), are as follows:

	<u>2017</u>	<u>2016</u>
	SR 000	SR 000
Fees and expenses on indirect engagement with group		
Alkhair Capital Dubai during the year	4,135	-
Amount paid during the year	<u>(4,135)</u>	<u>-</u>
Balance, end of the year	<u>-</u>	<u>-</u>

(iii) Alkhair Capital Dubai Ltd.

The Group engaged Alkhair Capital Dubai, an associate entity, to provide general financial advisory, and secondment services to international subsidiaries. The details of the transactions, included in trade payable under trade payable and others (refer note # 14), are as follows:

	<u>2017</u>	<u>2016</u>
	SR 000	SR 000
Fees and expenses on indirect engagement with group		
Alkhair Capital Dubai during the year	897	-
Amount paid during the year	<u>-</u>	<u>-</u>
Balance, end of the year	<u>897</u>	<u>-</u>

For the year ended 31 December 2017 and 2016, no other transactions are entered into with entities that have common Board Members or Shareholders to the Group.

In addition, the Group entered into certain other transactions with related parties that did not have a significant impact on the financial position or comprehensive income of the Group.

See also note 8.

24. RETIREMENT BENEFIT PLANS

The Group makes payments to defined contribution retirement benefit plans in the form of the General Organisation of Social Insurance that are charged as an expense as they fall due. Payments are made on the basis of a percentage of qualifying salary for certain employees to this state-managed scheme.

The total cost charged to the consolidated statement of profit or loss and comprehensive income for the year ended 31 December 2017 was SR 6.32million (31 December 2016: SR 4.54 million), and the outstanding contribution as at 31 December 2017 is SR 367 thousand (31 December 2016: SR 219 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

25. CAPITAL MANAGEMENT

The executive committee reviews the capital structure of the Group on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its parent company through optimisation of debt and equity balances. The Group's overall strategy remains unchanged from 2007, when the Group diversified its sources of funding and issued two medium term Sukuks ranging from 3-5 years. Considering the track record of timely repayment of the first two Sukuk and the group expertise developed over the past five years to access international markets for shariah' compliant funding, the management continue to maintain its relationship with the capital markets and monitor the markets for future issuance. The Group adhere to international best practices in corporate governance and consider the capital market transactions to create additional shareholders value.

The capital structure of the Group consists of net debt (borrowings adjusted with cash and cash equivalents) and equity (comprising share capital, statutory reserve, and retained earnings). The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The Group consistently monitors its gearing ratio, to ensure compliance with external covenant requirements.

The gearing ratio at end of the reporting year was as follows:

	2017 SR 000	2016 SR 000
Islamic borrowings	6,398,982	5,215,370
Cash and cash equivalents and short term deposits	(3,159,666)	(582,088)
Net debt	3,239,316	4,633,282
Shareholders' equity	18,733,550	18,177,507
Net debt to equity ratio	17%	25%

26. FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities are mainly comprised of Islamic Murabaha (term and annual revolving) facilities taken from banks, issue of Islamic Sukuk, trade payable and other payables to contractors and suppliers. The paramount objectives of these financial instruments are to raise the funding base for various projects as well as for the working capital requirement of the Group.

The Group also has financial assets in the form of bank deposits, cash in hand, due from related parties and trade and other receivables, which are integral and directly derived out of its regular business. On the reporting date the Group has not entered into any non-Islamic financial variable instrument contracts by way of currency hedging, commission rate swap agreements or similar instruments.

The Group's financial operations are subject to the following risks:

1. Credit Risk
2. Commission Rate Risk
3. Liquidity Risk
4. Foreign Currency Risk
5. Islamic financial variable instrument

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Credit Risk

The Credit Risk can be defined as a loss of value of an asset as a result of a failure by a customer or a counter party to such commercially valid and legally enforceable contract to comply with its obligations.

The general sales policy of the Group is "No Credit" terms, but in some cases there are enhanced payment schedules or staggered payment request by selected customers which have been accommodated. In such cases the Group has an exposure of credit risk with respect to the amount due from those customers. However, in such cases the Group holds back the final delivery or possession of the property to mitigate the risk until the full amount due is paid to the satisfaction of the contract. The monitoring and follow up of balances is completed regularly and as a result the Group's exposure to losses is limited.

With respect to the credit risk exposure of other financial assets, namely, due from related parties, bank deposits and trade and other receivables, the maximum credit risk of the Group is limited to their carrying values, in case there is a failure of the other party to meet its obligation.

As of the reporting date, the Group does not have significant credit risk concentration with any single party or a group.

Commission Rate Risk

Commission Rate Risk is associated with a change in the commission rate available when renegotiating financial instruments that are influenced by the current global financial market conditions. The Group is exposed to commission rate risk with respect to its floating commission covenants agreed for its Islamic Murabaha (revolving credit) facilities obtained from local banks.

The short term revolving borrowings' rates are renegotiated at every renewal proposal to achieve the best possible commission rate to reflect the given financial credentials and related risk perception of the Group.

The Group has a specific shariah' complaint commission rate swap contract to manage its commission rate risk. The Group's international borrowing commission rates are primarily based on LIBOR and its local borrowings are based on SAIBOR. Hence the commission rate exposure of the Group is variable according to the changes in the LIBOR & SAIBOR.

The commission rate sensitivity analysis is performed based on the commission rate exposure of the Group for floating rate liabilities outstanding at the reporting date. The calculations are done on floating commission rates assuming the liabilities outstanding for a whole year as at the reporting date.

During the period under review the average rate of 3 months LIBOR varied between 1.34% and 1.70% (0.85% and 0.99% for 2016) and SAIBOR varied between 1.79% and 1.90% (2.03% and 2.39% for 2016).

The sensitivity of commission rate variance on the Group's external borrowings which affects the consolidated financial statements of the Group is shown below:

	<u>2017</u>	<u>2016</u>
	SR 000	SR 000
+ 25 basis points	<u>4,401</u>	<u>5,233</u>
- 25 basis points	<u>(4,401)</u>	<u>(5,233)</u>

The net profit of the Group for the reported period would have been affected by the above amount as a result of such changes in floating commission rates. If there is any capitalisation of borrowing costs directly attributed to projects in progress, there would be timing differences on such an impact to the Group's current profit and loss account and the current impact would be nil as there is no capitalisation for the current year and historically, the management capitalises approximately 10% of borrowing costs to projects in progress as explained in note 2.9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Liquidity Risk

Liquidity Risk can result from a difficulty to meet the financial commitments and obligations of the Group as per the agreed terms and covenants.

To mitigate the liquidity risk and associated losses of business and brand value opportunities; the Group, where possible, keeps sufficient liquid assets in all business conditions. The Group refrains from funding its long term capital requirements through short term borrowings and related party current account transactions. Currently the long term projects are funded from long term or revolving borrowings only. The Group also has a dynamic cash flow assessment policy and system by which it can estimate and plan the maturities as well as required resources to meet such obligations.

The total weighted average effective annual commission rate for the year ended 31 December 2017 is 6.95% (31 December 2016: 6.06%)

See notes 12 and 14 for further details.

a) The maturity profile of assets, liabilities and equity as at 31 December 2017 and 2016 are as follows:

<u>31 December 2017</u>	<u>Within 3 Months</u>	<u>3 months to 1 year</u>	<u>One year to 10 years</u>	<u>No fixed maturity</u>	<u>Total</u>
	<u>SR 000</u>	<u>SR 000</u>	<u>SR 000</u>	<u>SR 000</u>	<u>SR 000</u>
<u>Assets</u>					
Investment properties, net	-	-	-	3,290,010	3,290,010
Development properties	-	122,675	-	14,751,565	14,874,240
Property and equipment, net	-	-	-	70,925	70,925
Investments in associates	-	-	-	811,189	811,189
Other assets	-	-	1,950	-	1,950
Trade receivables and others	-	4,033,325	-	-	4,033,325
Cash and cash equivalents	3,159,666	-	-	-	3,159,666
Total assets	3,159,666	4,156,000	1,950	18,923,689	26,241,305
<u>Liabilities and equity</u>					
Islamic borrowings	82,800	1,595,848	4,720,334	-	6,398,982
End of service indemnities	-	-	-	21,961	21,961
Trade payables and others	-	149,468	-	387,674	537,142
Zakat provisions	-	-	-	549,670	549,670
Shareholders' Equity	-	-	-	18,733,550	18,733,550
Total liabilities and equity	82,800	1,745,316	4,720,334	19,692,855	26,241,305

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31 December 2016	Within 3 Months	3 months to 1 year	One year to 11 years	No fixed maturity	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
Assets					
Investment properties, net	-	-	-	3,424,778	3,424,778
Development properties	-	317,325	-	16,721,061	17,038,386
Property and equipment, net	-	-	-	66,131	66,131
Investments in associates	-	-	-	790,585	790,585
Other assets	-	-	828	-	828
Trade receivables and others	-	2,582,978	-	-	2,582,978
Cash and cash equivalents	582,088	-	-	-	582,088
Total assets	582,088	2,900,303	828	21,002,555	24,485,774
Liabilities and equity					
Islamic borrowings	56,550	268,445	4,890,375	-	5,215,370
End of service indemnities	-	-	-	25,682	25,682
Trade payables and others	-	167,492	-	362,229	529,721
Zakat provision	-	-	-	537,494	537,494
Shareholders' Equity	-	-	-	18,177,507	18,177,507
Total liabilities and equity	56,550	435,937	4,890,375	19,102,912	24,485,774

Foreign Currency Risk

Foreign Currency Risk is associated with the change in the value of the carrying value in the functional currency due to the variation of the underlying foreign currency obligation or right by way of transaction or translation reasons. The functional currency of the Group is the Saudi Riyal that is pegged against the US Dollar with a fixed exchange rate of 3.75 Saudi Riyals per US Dollar. Since transactions, other than US Dollars, are negligible; the Group does not assume any significant foreign currency risk.

Islamic financial variable Instruments Risk

As part of its asset and liability management, the Group uses Islamic finance variable instruments for hedging its exposure to commission rate and cash flow risks. This is generally achieved by hedging specific transactions. The Group uses Islamic finance variable instruments primarily to manage exposures to foreign currency and commission rate risks. The Group's principal objective in holding Islamic finance variable instruments is to reduce the cash outflows associated with changes in foreign currency and fixed commission rates. The Group's Islamic finance variable instruments are exposed to credit risk to the extent of that counterparty's inability to meet the contractual obligations. The Group mitigates such risks by dealing with major financial institutions as its counterparties. The group Management does not expect any material losses or risk from the default of counterparties as the potential risk of such defaults is periodically monitored.

27. COMMITMENTS AND CONTINGENCIES

To complete the long term construction and development of investment and development properties, the Group have committed to a number of contractual arrangements and agreements. Such contracts are cancellable at the Group's discretion with no penalties. The estimated uncompleted contracts outstanding as at 31 December 2017 amounts to SR 49 million (31 December 2016: SR 49 million) and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2016: SR 74 million).

These commitments are expected to be settled within the duration of the projects in progress and shall be funded through prospective property sales and external borrowings, if necessary.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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During the normal course of business there are general litigations and legal claims. Management takes legal advice as to the likelihood of success of claims and no provision is made when the action is unlikely to succeed.

At 31 December 2017, there were no significant claims notified (31 December 2016: None).

28. STATUTORY ADOPTION OF IFRS

The Group is not the first time adopter of IFRS. The Group has been consistently prepared and issued its financial statements in compliance with International Financial Reporting Standards (IFRS) from the year ended 31 December 2008 and for all period's up to and including the year ended 31 December 2016, for complying with its international capital market covenants and management requirements.

The IFRS reports were issued separately and independently in parallel without affecting its statutory financial statement prepared and issued in accordance with generally accepted accounting principle in the Kingdom of Saudi Arabia (SOCPA).

However, the below table explains the principal reclassification, grouping and adjustments, if any, made by the Group in restating its SOCPA financial statements, including the statement of financial position and statement of changes in equity, as at 31 December 2016 together with the profit or loss and other comprehensive income for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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28A – Reconciliation of Financial position as at 01 January 2016

As per SOCPA			As per IFRS		
	Notes	01 January 2016 SR 000		Notes	01 January 2016 SR 000
ASSETS			ASSETS		
Current Assets			Current assets		
Developed land – short-term		437,185	Development properties		437,185
Accounts receivable, net	28b	1,948,687	Trade receivables and others	28b	2,923,496
Prepaid expenses and others	28b	974,809	Cash and cash equivalents		1,001,061
Cash and cash equivalents		1,001,061			
Total Current Assets		4,361,742	Total current assets		4,361,742
Non-Current Assets			Non-current assets		
Investment properties, net		3,501,637	Investment properties, net		3,501,637
Projects in progress – long-term	28c	8,651,076			
Investments in land under development	28c	5,982,401	Development properties	28c	16,597,241
Developed land – long-term	28c	1,963,764	Investments in associates and joint ventures		776,207
Investment in associates		776,207	Property and equipment, net		68,416
Property and equipment, net		68,416	Total non-current assets		20,943,501
Total Non-Current Assets		20,943,501	TOTAL ASSETS		25,305,243
TOTAL ASSETS		25,305,243			
LIABILITIES AND EQUITY			LIABILITIES AND EQUITY		
Current Liabilities			Current liabilities		
Islamic borrowings – current portion		1,531,945	Borrowings-short-term maturity portion		1,531,945
Due to a related party	28d	194,253	Trade payables and others	28d	509,278
Accounts payable	28d	173,433	Zakat provisions	28d	555,757
Accrued expenses and others	28d	697,349			
Total Current Liabilities		2,596,980	Total current liabilities		2,596,980
Non-Current Liabilities			Non-current liabilities		
Islamic borrowings		4,760,617	Borrowing -long-term maturity portion		4,760,617
Provision for end-of-service indemnities		20,973	End of service indemnities		20,973
Total Non-Current Liabilities		4,781,590	Total non-current liabilities		4,781,590
Total liabilities		7,378,570	Total liabilities		7,378,570
Shareholders' Equity			Shareholders' Equity		
Share capital		10,800,000	Share capital		10,800,000
Statutory reserve		978,300	Statutory reserve		978,300
Retained earnings		6,148,373	Retained earnings		6,148,373
Total Shareholders' Equity		17,926,673	Total shareholders' equity		17,926,673
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		25,305,243	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		25,305,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Explanation for the reconciliation of Financial Position as at 01 January 2016:

28b Trade receivables and others under IFRS

This principally consists of accounts receivables, prepaid expense and due from related parties. For better presentation adopted in IFRS, the management reclassified these assets to trade receivables and others as detailed below:

Asset Description	01 January 2016 SR 000	Accounting convention
Accounts receivable, net	1,948,687	SOCPA
Prepaid expenses and others	974,809	SOCPA
Trade receivables and others	2,923,496	IFRS

28c Development properties under IFRS

All development properties are initially measured at acquisition cost and subsequently measured and accounted for at lower of cost and net realisable value. This principally consists of projects under progress and land parcels under development for sales in the ordinary course of business, rather than to be held for rental or capital appreciation. For better presentation adopted in IFRS, the management reclassified various categories of land and land development assets to development properties as detailed below:

Asset Description	01 January 2016 SR 000	Accounting convention
Projects in progress – long-term	8,651,076	SOCPA
Investments in land under development	5,982,401	SOCPA
Developed land – long-term	1,963,764	SOCPA
Development properties	16,597,241	IFRS

28d Trade payables and others under IFRS

This principally consists of accounts payables, accrued expense and others including zakat provisions and due to related parties. For better presentation adopted in IFRS, the management reclassified these items to trade payables and others and Zakat payables as detailed below:

Liability Description	01 January 2016 SR 000	Accounting convention
Due to a related party	194,253	SOCPA
Accounts payable	173,433	SOCPA
Accrued expenses and others	697,349	SOCPA
Total as per SOCPA	1,065,035	
Trade payables and others	509,278	IFRS
Zakat provisions	555,757	IFRS
Total as per IFRS	1,065,035	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

28E - Reconciliation of Equity as at 1 January 2016

Statement of equity as per SOCPA as at		Statement of equity as per IFRS as at	
	01 January 2016		01 January 2016
	SR 000		SR 000
Share Capital		Share Capital	
Balance as at 01 January 2015	10,800,000	Balance as at 01 January 2015	10,800,000
Balance as at 01 January 2016	10,800,000	Balance as at 01 January 2016	10,800,000
Statutory Reserve		Statutory Reserve	
Balance as at 01 January 2015	942,384	Balance as at 01 January 2015	942,384
Transferred from retained earnings	35,916	Transferred from retained earnings	35,916
Balance as at 01 January 2016	978,300	Balance as at 01 January 2016	978,300
Retained Earnings		Statutory Reserve	
Balance as at 01 January 2015	5,825,132	Balance as at 01 January 2015	5,825,132
Net income for the year	359,157	Net income for the year	359,157
Transferred to retained earnings	(35,916)	Other comprehensive income	-
		Transferred to retained earnings	(35,916)
Balance as at 01 January 2016	6,148,373	Balance as at 01 January 2016	6,148,373
TOTAL SHAREHOLDERS' EQUITY	17,926,673	TOTAL SHAREHOLDERS' EQUITY	17,926,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

28F – Reconciliation of Financial Position as at 31 December 2016

	Notes	As per SOCPA		Notes	As per IFRS
		2016			2016
		SR 000			SR 000
ASSETS			ASSETS		
Current Assets			Current assets		
Developed land – short-term		317,325	Development properties		317,325
Accounts receivable, net	28g	1,839,470	Trade receivables and others	28g	2,582,978
Prepaid expenses and others	28g	743,508	Cash and cash equivalents		582,088
Cash and cash equivalents		582,088			
Total Current Assets		3,482,391	Total current assets		3,482,391
Non-Current Assets			Non-current assets		
Investment properties, net		3,424,778	Investment properties, net		3,424,778
Projects in progress – long-term	28h	8,878,157			
Investments in land under development	28h	6,261,462	Development properties	28h	16,721,061
Developed land – long-term	28h	1,581,442	Investments in associates and joint ventures		790,585
Investment in associates		790,585	Property and equipment, net		66,131
Property and equipment, net		66,131	Other assets		828
Deferred charges		828	Total non-current assets		21,003,383
Total Non-Current Assets		21,003,383	TOTAL ASSETS		24,485,774
TOTAL ASSETS		24,485,774			
LIABILITIES AND EQUITY			LIABILITIES AND EQUITY		
Current Liabilities			Current liabilities		
Islamic borrowings – current portion		324,995	Borrowings-short-term maturity portion		324,995
Due to a related party	28i	193,363	Trade payables and others	28i	529,721
Accounts payable	28i	174,199	Zakat provisions	28i	537,494
Accrued expenses and others	28i	699,653	Total current liabilities		1,392,210
Total Current Liabilities		1,392,210	Non-current liabilities		
Non-Current Liabilities			Borrowing -long-term maturity portion		4,890,375
Islamic borrowings		4,890,375	End of service indemnities		25,682
Provision for end-of-service indemnities		25,682	Total non-current liabilities		4,916,057
Total Non-Current Liabilities		4,916,057	Total liabilities		6,308,267
Total liabilities		6,308,267	Shareholders' Equity		
Shareholders' Equity			Share capital		10,800,000
Share capital		10,800,000	Statutory reserve		1,003,383
Statutory reserve		1,003,383	Retained earnings		6,374,124
Retained earnings		6,374,124	Total shareholders' equity		18,177,507
Total Shareholders' Equity		18,177,507	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		24,485,774
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		24,485,774			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Explanation for the reconciliation of Financial Position as at 31 December 2016:

28g Trade receivables and others under IFRS

This principally consists of accounts receivables, prepaid expense and due from related parties. For better presentation adopted in IFRS, the management reclassified these assets to trade receivables and others as detailed below:

Asset Description	31 December 2016 SR 000	Accounting convention
Accounts receivable, net	1,839,470	SOCPA
Prepaid expenses and others	743,508	SOCPA
Trade receivables and others	2,582,978	IFRS

28h Development properties under IFRS

All development properties are initially measured at acquisition cost and subsequently measured and accounted for lower of cost and net realisable value. This principally consists of projects under progress and land parcels under development for sales in the ordinary course of business, rather than to be held for rental or capital appreciation. For better presentation adopted in IFRS, the management reclassified various categories of land and land development assets to development properties as detailed below:

Asset Description	31 December 2016 SR 000	Accounting convention
Projects in progress – long-term	8,878,157	SOCPA
Investments in land under development	6,261,462	SOCPA
Developed land – long-term	1,581,442	SOCPA
Development properties	16,721,061	IFRS

28i Trade payables and others under IFRS

This principally consists of accounts payables, accrued expense and others including zakat provisions and due to related parties. For better presentation adopted in IFRS, the management reclassified these items to trade payables and others and Zakat payables as detailed below:

Liability Description	31 December 2016 SR 000	Accounting convention
Due to a related party	193,363	SOCPA
Accounts payable	174,199	SOCPA
Accrued expenses and others	699,653	SOCPA
Total as per SOCPA	1,067,215	
Trade payables and others	529,721	IFRS
Zakat provisions	537,494	IFRS
Total as per IFRS	1,067,215	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

28J - Reconciliation of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

As per SOCPA			As per IFRS		
	Notes	2016 SR 000		Notes	2016 SR 000
Revenues from operations		1,870,229	Revenue		1,870,229
Cost of operations		(1,078,286)	Cost of sales		(1,078,286)
Gross profit		791,943	GROSS PROFIT		791,943
Operating expenses:			Operating expenses:		
General, administrative, selling and marketing expenses	28k	(156,005)	General and administrative expenses	28k	(160,028)
Depreciation	28k	(4,023)			
Amortisation of deferred charges	28k	(32,448)			
Income for the year from operating activities		599,467	OPERATING PROFIT		631,915
Other Income / (expenses):					
Share of income from investment in associates		12,878	Share of net profits from associates and joint ventures		12,878
Islamic Murabaha charges	28l	(100,162)			
Islamic Sukuk charges	28l	(253,374)	Finance costs	28l	(385,984)
Other (expenses)/ income, net		(32)	Other (expenses)/ income, net		(32)
Income for the year before Zakat		258,777	PROFIT BEFORE ZAKAT		258,777
Zakat provision		(7,943)	Zakat provisions		(7,943)
Net income for the year		250,834	NET PROFIT FOR THE PERIOD		250,834
			Other comprehensive income:		
			Other comprehensive income for the period		-
			Total comprehensive income for the period		250,834
			Total comprehensive income attributable to:		
			Dar Al Arkan shareholders		250,834
Earnings per share for the period (in Saudi Riyal)			Earnings per share (in Saudi Riyal)		
From operating activities		0.56			
From net income		0.23	Basic and diluted		0.23

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Explanations for the reconciliation to Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

28k General and administrative expenses under IFRS

This principally consists of general administrative expense including employee cost, maintenance and utilities, professional and consultancy expense and depreciation of properties and equipment. For better presentation adopted in IFRS, the management reclassified these expenses to general and administrative expenses as detailed below:

Expenses description	31 December 2016 SR 000	Accounting convention
General, administrative, selling and marketing expenses	(156,005)	SOCPA
Depreciation	(4,023)	SOCPA
General and administrative expenses	(160,028)	IFRS

28l Finance costs under IFRS

Finance costs principally consist of profit and finance charges paid and accrued against Islamic Sukuks and Muarabaha facilities and amortisation of transaction costs for the relevant period. For better presentation adopted in IFRS, the management reclassified these expenses to finance costs as detailed below:

Expenses description	31 December 2016 SR 000	Accounting convention
Amortisation of deferred charges	(32,448)	SOCPA
Islamic Murabaha charges	(100,162)	SOCPA
Islamic Sukuk charges	(253,374)	SOCPA
Finance costs	(385,984)	IFRS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

28M - Reconciliation of Equity as at 31 December 2016

Statement of equity as per SOCPA		Statement of equity as per IFRS	
	2016 SR 000		2016 SR 000
Share Capital		Share Capital	
Balance as at 01 January 2016	10,800,000	Balance as at 01 January 2016	10,800,000
Balance as at 31 December 2016	10,800,000	Balance as at 31 December 2016	10,800,000
Statutory Reserve		Statutory Reserve	
Balance as at 01 January 2016	978,300	Balance as at 01 January 2016	978,300
Transferred from retained earnings	25,083	Transferred from retained earnings	25,083
Balance as at 31 December 2016	1,003,383	Balance as at 31 December 2016	1,003,383
Retained Earnings		Retained Earnings	
Balance as at 01 January 2016	6,148,373	Balance as at 01 January 2016	6,148,373
Net income for the period	250,834	Net income for the period	250,834
Transferred to Statutory reserve	(25,083)	Other comprehensive income	-
		Transferred to Statutory reserve	(25,083)
Balance as at 31 December 2016	6,374,124	Balance as at 31 December 2016	6,374,124
TOTAL SHAREHOLDERS' EQUITY	18,177,507	TOTAL SHAREHOLDERS' EQUITY	18,177,507

29. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on February 1, 2018.